



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 140 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 24th AND TUESDAY 25th JANUARY, 2022

The Monetary Policy Committee (MPC) held its first meeting for the year 2022 on the 24th and 25th of January 2022 in the light of waning optimism for a robust rebound in global recovery in 2021. This resulted from the persistence of the COVID-19 pandemic and emergence of new variants of the virus; persisting supply bottlenecks; global inflationary pressures; and the imminent commencement of monetary policy normalization by some major central banks. In the domestic economy, output growth recovery was relatively strong in 2021. It is however, expected to continue reasonably in 2022, following considerable improvement in the third quarter of 2021 and a positive outlook for the fourth quarter. This was hinged on the continued support of the monetary and fiscal authorities to sustain the current momentum. The Committee reviewed the developments in the global and domestic economic and financial environments in 2021, as well as the outlook and risks for 2022.

Ten (10) members of the Committee attended this meeting.

Global Economic Developments

The Committee noted that while the recovery of the global economy in 2021 fell below the initial forecast, final estimates showed considerable improvements over the 2020 outcome, evidence that the global economy was pulling out of the doldrum associated with the pandemic. Consequently, the recovery is gaining momentum with increasing consumer spending, upswing in investments and soaring world merchandise trade, above pre-pandemic levels. This reflects the resilience of economic agents in the face of new strains of the

virus and rising infection rates. The Committee, however, took cognizance of significant headwinds confronting the global economy in 2022, largely associated with the persisting threats of new variants of the coronavirus. The Advanced Economies are however, in a strong position to offset the impact of these headwinds with stronger policy support and better access to COVID-19 vaccines. Consequently, this group of economies have shown better resilience towards disruptions to the recovery. In the medium term however, the rising inflationary pressures and the gradual withdrawal of both monetary and fiscal stimuli may dampen the recovery in 2022.

In the Emerging Market and Developing Economies (EMDEs), poor access to vaccines and limited policy support meant that this group of economies have been harder hit by the Covid-19 health crisis and its associated macroeconomic downturn. In China, one of the few countries that stayed out of recession in 2020, output weakened in the third quarter of 2021 and has continued to weaken as the Covid infections continue to rage amid power supply shortages and a turbulent property market. Following the containment of the infections in India, the economy has commenced a sharp recovery and is set to continue on an upward trajectory. Overall, growth in the EMDEs is expected to slow in 2022 due to the low level of vaccination and limited policy support in several economies in this group.

On price development, the MPC observed that inflation, in most Advanced Economies remained high and unlikely to abate in the short to medium term. This is driven by the persistence of supply side disruptions and pent-up demand associated with economic recovery. In the EMDEs, inflation has remained high due to a combination of persisting exchange rate pressures and supply bottlenecks associated with the lockdown restrictions. With the US Fed and central banks of other advanced economies now moving towards monetary policy normalization, the eventual interest rate hike may likely trigger huge capital outflow from the EMDEs which will further aggravate exchange rate pressures with a pass-through to domestic prices.

Global financial markets data show significant sell-off, as investors continued to rebalance their portfolios with the shift from assets such as gold and emerging market securities to securities of Advanced Economies suggesting market response to the impending interest rate hike. Thus, global financial conditions are expected to tighten as risk averse portfolio investors reassign their portfolios from perceived riskier emerging market securities, to less risky advanced economy securities with the expectation of improved yields.

Domestic Economic Developments

Staff projections showed that the economy is expected to remain on a path of positive growth, given the impressive performance in the third quarter of 2021 and continuing rebound in economic activities. The Committee noted with satisfaction, the significant improvement in the Manufacturing Purchasing Managers' Index (PMI), which rose to 52.0 index points in December 2021, compared with 50.8 index points in November reflecting the continuing economic recovery. This expansion was driven largely by increasing business activities in the economy, leading to increase in new orders and uptrend in employment and production levels. The Non-Manufacturing PMI, however, declined marginally to 48.0 index points in December 2021 from 48.6 points in November, largely reflecting a decline in services.

The Committee noted with concern, the slight increase in headline inflation (year-on-year) to 15.63 per cent in December 2021 from 15.40 per cent in November following seven consecutive months of decline. The unexpected increase was attributed to both the food and core components, which rose to 17.37 and 13.87 per cent in December 2021 from 17.21 and 13.85 per cent in November, respectively. The Committee, however, expressed confidence in the Bank's sustained intervention programmes, noting that inflation will continue to abate as food supply improves. Members also noted that the seasonal drive in price development associated with the December festive period was largely contributory to the marginal increase in price levels, and as such, believe that this episode of increase may be temporary.

Reviewing the developments in monetary aggregates, the Committee noted that broad money supply (M3) rose further to 13.77 per cent in December 2021, compared with 10.10 per cent in November 2021. This upthrust was largely driven by the growth in Net Domestic Assets (NDA) of 15.58 per cent in December 2021, compared with 9.40 per cent in November 2021. Net Foreign Assets (NFA), however decreased to 6.06 per cent in December 2021, compared with 14.98 per cent in November 2021. The sharp growth in Net Domestic Assets (NDA) was largely attributed to an increase in claims on the Federal government and other sectors. The slowdown in growth of Net Foreign Assets (NFA) resulted from a decrease in foreign assets holdings of the banking system in favour of more domestic investments.

The Committee reviewed the performance of the Bank's intervention programmes aimed at stimulating productivity in manufacturing/industries, agriculture, energy/infrastructure, healthcare and Micro, Small and Medium Enterprises (MSMEs). Between November and December 2021, under the Anchor Borrowers' Programme (ABP), the Bank disbursed ₦75.99 billion to support the cultivation of over 383,000 hectares of maize, rice and wheat during the 2022 dry season, bringing the cumulative disbursements under the Programme to ₦927.94 billion to over 4.5 million smallholder farmers cultivating 21 commodities across the country. All excess output aggregated from the financed farmers will be released to the Nigeria Commodity Exchange (NCX) to help moderate the prices of food in the market. The Bank also released ₦1.76 billion to finance two (2) large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACS).

In addition, the Bank disbursed the sum of ₦151.23 billion under the Real Sector Facility to 15 additional projects in agriculture, manufacturing, mining, and services. The funds were utilized for both greenfield and brownfield (expansion) projects under the Covid-19 Intervention for the Manufacturing Sector (CIMS) and the Real Sector Support Facility from Differentiated Cash Reserve Requirement (RSSF-DCRR). Cumulative disbursements under the Real Sector

Facility currently stood at ₦1.40 trillion disbursed to 331 projects across the country. As part of its effort to support the resilience of the healthcare sector, the Bank also disbursed ₦498.00 million to two (2) healthcare projects under the Healthcare Sector Intervention Facility (HSIF), bringing the cumulative disbursements to ₦108.85 billion for 118 projects, comprising of 31 pharmaceuticals, 82 hospital and 4 other services.

To support households and businesses affected by Covid-19, the Bank disbursed ₦20.29 billion to 40,521 beneficiaries, comprising 35,340 households and 5,181 small businesses under the Targeted Credit Facility (TCF) within the period. The cumulative disbursements under the TCF stood at ₦369.78 billion to 777,666 beneficiaries, comprising 648,052 households and 129,614 small businesses. To further promote entrepreneurship development among Nigerian youths, the Bank disbursed ₦293 million to 59 beneficiaries under the recently introduced Tertiary Institutions Entrepreneurship Scheme (TIES).

Under the National Mass Metering Programme (NMMP), the sum of ₦47.83 billion was disbursed for the procurement and installation of 858,026 electricity meters across the country under the Scheme's Phase-0. The Committee also noted the improved collections by DisCos as a result of increased meter installations. The Bank released ₦274.33 billion to power sector players, as part of its effort to support the sector under the Nigeria Bulk Electricity Trading Payment Assurance Facility (NBET-PAF). This was in addition to the ₦20.58 billion released to Distribution Companies (DisCos) under the Nigeria Electricity Market Stabilisation Facility – Phase 2 (NEMSF-2). To further support the development of enabling infrastructure in the gas industry, the Bank released additional ₦3.00 billion for the augmentation of an existing infrastructure, bringing the cumulative disbursements under the Intervention Facility for National Gas Expansion Programme (IFNGEP) to ₦42.20 billion for six (6) projects.

Furthermore, under the 100 for 100 Policy on Production and Productivity (PPP), which was introduced to stimulate the flow of finance and investments to enterprises and projects with potential to kick-start a sustainable economic

growth trajectory, accelerate structural transformation, promote diversification, and improve productivity, the Bank has received 224 applications, valued at ₦294.91 billion for real sector projects in agriculture, energy, healthcare, manufacturing and services. The applications are currently being processed and the first batch of beneficiaries under the intervention will be announced on 31st January 2022, with their names published in national dailies. These projects have been carefully selected in line with the approved selection criteria as contained in the guidelinesq

Money market rates fluctuated within and above the asymmetric corridor, reflecting prevailing liquidity conditions in the banking system. The monthly weighted average Open Buyback (OBB) rate increased to 12.75 per cent in December 2021 from 10.61 per cent in November 2021. The increase in the Open Buyback (OBB) rate reflected the tight liquidity conditions in the banking system.

The MPC noted the continuing positive performance in the equities market in the review period, with the All-Share Index (ASI) and Market Capitalization (MC) increasing by 1.61 and 1.63 per cent to 42,716.44 and N22.30 trillion on December 31, 2021, from 42,038.60 and N21.94 trillion on October 29, 2021, respectively. This positive performance reflected improved corporate earnings as investors participation increased in the market.

The MPC also noted the sustained resilience of the banking system, following the progressive improvement in the Non-Performing Loans (NPLs) ratio from 5.10 per cent in November 2021 to 4.85 per cent in December 2021- a first in a long time. The Committee also noted that the liquidity ratio remained well above its prudential limit at 41.3 per cent, though Capital Adequacy Ratio (CAR) declined marginally to 14.53 per cent in December 2021 from 14.90 per cent in the previous month. The Committee thus, urged the Bank to sustain its firm regulatory surveillance.

Members also noted the continued improvement in the external reserves despite ongoing foreign exchange market pressures. The reserves stood at US\$40.20 billion as at December 2021.

Outlook

The broad outlook for the recovery in both the global and domestic economies is clouded with uncertainty such as the resurgence of the COVID-19 pandemic, driven by new and mutating strains of the coronavirus; persisting supply bottlenecks; high and rising inflationary pressures; and dwindling monetary and fiscal stimuli.

The Emerging Markets and Developing Economies are likely to experience a sharp downturn as a result of the identified headwinds confronting the outlook. This is hinged on the back of the ongoing two-speed recovery of the global economy, driven by continued disparities in the administration of vaccines between the Advanced Economies and the Emerging Markets and Developing Economies. While the Advanced Economies will also experience a downturn in 2022, this group of economies are expected to take a less severe hit as most of them have achieved significant high levels of vaccination.

Staff forecast project output growth at 3.10 per cent in 2021 with an expected better outcome in 2022, consistent with the expected improved macroeconomic performance. The economic recovery is therefore expected to progress gradually with the ongoing support by the monetary and fiscal authorities, progress in COVID-19 vaccinations and continued high crude oil prices.

After a moderate increase in December 2021, headline inflation is expected to trend marginally upwards in the short-term before moderating towards the end of the first quarter of 2022. This is expected as food harvests progress towards the end of the first quarter of 2022 and improve food supply. In general, with the Bank sustaining its intervention programmes through the year, food inflation is expected to trend downwards in 2022.

Available forecasts for key macroeconomic variables for the Nigerian economy, indicated expected rebound in output growth for most of 2022, sustained by ongoing broad monetary and fiscal stimuli. Accordingly, the Nigerian economy is forecast to grow in 2022 by 2.86 per cent (CBN), 4.20 per cent (FGN) and 2.76 per cent (IMF).

The Committee's Considerations

The Committee accessed the balance of risks confronting the domestic economy in the near term as they impact output growth and price stability. Members noted the unrelenting effort by the monetary and fiscal authorities in mitigating the impact of the virus on the economy. It observed the continued moderate recovery of the domestic economy but requires further concerted policy effort by both the monetary and fiscal authorities to improve the momentum and strengthen the recovery. Members were thus of the view that, building on the improved growth in the third quarter and the positive PMIs in the fourth quarter of 2021, output growth is expected to strengthen into 2022.

On the Pandemic, the MPC reviewed its continued impact on the domestic economy as Members collectively agreed that the downside risks were still hindering the recovery. In this light, it commended the efforts of the Presidential Task Force on COVID-19 for procuring vaccines and continuing the drive to ensure that most Nigerians are fully vaccinated.

On price development, Members continued to express concerns about the impact of insecurity in farming communities on food inflation. Whereas headline inflation had been moderating for several months, the committee believed that its recent uptick was associated with increased demand during the festive season and was thus of the view that prices will return to the downward trajectory given the Bank's ongoing interventions in the agriculture sector. On this note, Members applauded the efforts of the Bank with the recent launch of the rice pyramids, noting that these efforts to increase food supply and stem food inflation were in the right direction. Members, however, reiterated the key

role of the Federal Government in providing the necessary security around the country, and particularly in the farming communities, to ensure that farmers and their produce remain safe, and food supply is both boosted and uninterrupted. The Committee noted that the ongoing dry season farming would further improve food supply and dampen prices.

Members noted the ongoing debate around the removal of fuel subsidy and suggested a robust engagement with relevant groups in the country, and afterward follow a stepwise and gradual approach, to ensure its moderate impact on cost of transportation and energy for individual, households and firms. The Committee also noted the need to encourage the take-off of private refineries across the country to provide alternative competitive local supply source and reduce the need for government intervention to manage fuel prices for domestic consumption. In addition to this, the Committee called for the speedy conclusion of the government gas-powered vehicle conversion scheme and other alternative sources of fuel.

On the exchange rate, the Committee applauded the Management's efforts at maintaining stability over the short term with increasing demand as the economy continues to reopen. Members noted the dwindling proceeds from oil sale, despite rising crude oil prices. They further noted the need to address the persistent reduction in remittance of oil revenue to the Consolidated Revenue Fund and urged the NNPC to urgently address this anomaly. The improved foreign exchange supply will thus support the Bank's demand management strategy in the foreign exchange market and consolidate macroeconomic performance, especially those that promote export, reduce dependence on import and reduce foreign exchange demand pressure. The MPC welcomed the improvement in foreign capital inflow through diaspora remittances and urged the Bank to further extend the incentive scope to attract more remittances to official channels.

The Committee noted the rising government debt profile and the concentration of the funding sources and its implications for fiscal sustainability and

macroeconomic stability, including its impact on financial system performance and growth. The MPC continued to urge the Government on the need to harness other sources of revenue to reduce its dependence on oil as a single revenue source. In addition, it reiterated the need for government to seek alternative, more viable, and efficient infrastructure financing sources, in order to ease its expenditure burden. To this end, Members called on the fiscal authorities to take advantage of InfraCorp, the private sector driven infrastructural vehicle and transfer viable infrastructure projects for consideration by the Corporation as this would ease pressure on Government, that would otherwise have to raise revenue through taxes from an already burdened private and household sector.

The improved performance of the equities market in the review period, signposted continued investor confidence in the Nigerian economy. This in the view of Members was a positive sign that the economy remained on a path to a more robust medium-term recovery.

The banking sector indices, in the consideration of Members, showed no less resilience as other macroeconomic indicators reviewed; even as obvious downside risks associated with the Pandemic continued to impact the business environment. Members thus applauded the Management's efforts in ensuring the continued downward trend of Non-Performing Loans (NPLs) ratio, signifying improving conditions in the banking system. Nevertheless, Members emphasized the need for the Bank to closely monitor developments in the sector and swiftly respond to any emerging challenges.

The Committee's Decision

The MPC observed with concern the moderate rise in inflation in December 2021, noting that this was typical of increased aggregate demand associated with the end of year festive activities. Members, however, expressed their continued commitment to drive down domestic prices by putting in place

relevant policy measures to curb the rise in inflationary pressures, while also supporting the fragile growth recovery.

In its determination as to whether to hold or loosen or tighten its policy stance, the MPC was mindful that, whereas the US and some Advanced Economies have signaled their intention to commence policy normalisation which may result in capital flow reversal for EMDEs, the major focus at these climes were targeted mainly at reining in the high level of inflation which had been unprecedent in the last four decades in those climes.

For Nigeria, members were of the view that Nigeria is confronted with, not only inflation but also fragile output growth. As a result, MPC believes that its current stance of price and monetary stability conducive for growth remain desirable. The MPC is convinced that various measures being implemented were helping, not only in boosting output growth, but also in moderating inflation. The MPC therefore, enjoyed Management to continue to use its development finance tools to accelerate output growth, which will also help in boosting manufacturing output that would ultimately aid moderation in prices. It also requested Management to continue its use of administrative measures, including discretionary tools at its disposal through CRR to control money supply in the economy.

In its final consideration, the Committee was clear that a loosening option was not desirable because it would trigger liquidity surfeit and fuel inflationary pressure as available funds may outstrip the economy absorptive capacity or domestic capacity utilization. It also feels loosening could trigger foreign exchange demand pressure, as the excess liquidity would be channeled to either frivolous importations or speculative holding of foreign exchange as alternative investment channels narrow; leading to foreign exchange depreciation and or inflation.

The MPC also dropped a tightening option at this meeting in view of the fragile state of the current GDP growth rate and potential external and domestic

headwinds confronting the economy. The Committee opined that tightening could truncate the steady improvement in credit performance, including other financial soundness indicators, and reverse the declining trend in NPLs. Moreover, tightening could counteract the CBN's credit expansion motive as a necessary condition for improved economic growth and employment generation.

The MPC, therefore, concluded that a HOLD stance remains desirable at this time, as this would indicate a conservative but cautious and consistent policy choice given the prevailing economic conditions and outlook, thus strengthening policy credibility and focus. It also feels that a hold would signal MPCs realisation of the fragility of the growth recovery and its sensitivity to emerging global and domestic uncertainties. Hence the need to sustain the current policy trajectory.

After a careful balancing of the benefits and downsides of each policy option, the MPC decided to hold all policy parameters constant; believing that a hold stance will enable the continued permeation of current policy measures in supporting the recorded growth recovery and further boost production and productivity, which would ultimately rein-in inflation in the short to medium term.

The Committee thus decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 11.5 per cent.

In summary, the MPC voted to retain:

- I. The MPR at 11.5 per cent;
- II. The Asymmetric Corridor of +100/-700 basis points around the MPR;
- III. The CRR at 27.5 per cent; and
- IV. The Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

25th January 2022